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**HF 134** – Enterprise Zone Penalty & Interest (LSB 1683YH)

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Fiscal Note Version – New

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**Description**

**House File 134** amends Iowa Code Section 15E.196(3) and eliminates the ability of the Department of Revenue to impose penalties and interest when recovering tax credits and tax incentives under the Enterprise Zone Program. State law currently requires recovery of tax incentives when Enterprise Zone projects do not meet specified performance goals as agreed to by the Department of Economic Development and the project developers. The change is retroactive to January 1, 2006.

**Background**

The prohibition in House File 134 against imposing penalties and interest applies only to the Enterprise Zone Program and only to tax credits and other tax incentives awarded under that program.

Two large Enterprise Zone projects initiated by limited liability companies (LLCs) failed to meet performance agreement thresholds and were found in default. The Department of Revenue has initiated action to recover the value of tax incentives awarded and redeemed by members of the LLCs. The Department is waiving penalties in those two instances. Interest is being billed and collected.

**Assumptions**

- To date, the Department has received \$275,000 in interest payments from taxpayers repaying the value of the redeemed tax incentives.
- The Department expects another \$75,000 of interest to be received, resulting in a total of \$350,000.
- If House File 134 is enacted, repayment of the interest to the taxpayer will occur in FY 2012.
- The interest and penalty prohibition will apply to any future default occurrence under the Enterprise Zone Program.

**Fiscal Impact**

The penalty and interest prohibition contained in House File 134 will reduce net FY 2012 General Fund revenue by an estimated \$350,000. Potential reductions could also occur in future fiscal years if additional Enterprise Zone projects fail to meet performance thresholds under that Program.

**Source**

Department of Revenue

/s/ Holly M. Lyons

February 15, 2011

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The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to Iowa Code **Section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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